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MONTHLY PROJECTIONS
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SLUGGISH OIL AND AUTOS AID DEFLATION IN LOWERING INTEREST RATES

As expected, falling oil prices are causing deflationary forces in the PPI and CPI indices. Especially favorable seasonal factors accentuated the magnitude of deflation in the January and February PPI estimates. As those seasonals reverse in March, PPI prices will show little change. However, oil prices in the CPI will continue to dominate that index through April. Therefore, oil induced deflation certainly will be with us until, at least, May.

What has been partially overlooked, however, has been the impact of plunging oil prices upon desired investment. At $28 per barrel, more than $70 billion of energy material inventories were being held in the United States. As those inventories are being exhausted and are being replaced by inventories with half the price tag, about $25 billion of one-time reductions in inventory investments will be forthcoming. (The decline is only $25 billion because of the energy materials include natural gas and coal, which are falling in price but not by the magnitude of oil.) In addition, oil exploration is declining sharply. In February, the mining component of industrial production fell 3.3% while unemployment in Texas increased by 143,000. (Normally, oil exploration accounts for approximately 10% of the more than $350 billion of capital expenditures in the United States. Many of these programs are being slashed by 30%, much of which is occurring through reduced exploration efforts at the present time.) Thus, desired investment probably has decreased by about $35 billion during the first half of 1986 as a result of the turmoil in the oil markets.

Eventually, the reduced interest rates induced by such a significant shift in investment activity along with the reduced energy cost accompanying other capital spending programs will accelerate to activity elsewhere. Thus, toward the end of 1986 and early in 1987 capital spending programs may be stronger outside the oil patch than originally contemplated. However, any increased investment activity must await increased spending programs, especially by the consumer.

Of course, some of the reduced investment will correspond with diminished savings created by significant inventory losses and falling operating profits in the energy industries. However, as 40% of our energy needs are served by

foreign suppliers, a significant proportion of the profit-loss will be borne by those foreign producers. Therefore, the desire to save at current interest rates and economic activity levels will not diminish by the magnitude of diminished investment activity.

Moreover, the consumer has exhibited a desire to pocket the increased purchasing power that declining energy prices is generating. The personal savings rate, that was $105.3 billion in December, is projected to rise to $158.1 billion by April. It is not unusual for the consumer to initially react to changing prices by altering savings. Once the increased savings have accumulated for several months, consumers will begin to demonstrate increased desires to purchase. Moreover, the degree of consumer retrenchment has been substantially overstated. Although retail sales in March are projected to be $115.75 billion, down from $116.86 billion in December, real consumption will actually be slightly higher in March than in December because of declining prices.

One area the consumer is showing hesitancy is in automobile sales. First, the consumer appears to be waiting for especially good dealer incentives before buying automobiles. As the especially favorable financial incentives have been replaced by less generous allowances, sales have slumped. They almost have certainly will slump further when GM raises its prices on April 12, at least until a new GM financing incentive program is put into place. Second, consumers appear to be less willing to trade in their old cars for new models. With 114.9 million registered passenger cars and 42.4 million registered vans and trucks on the highways, the demand for new automobiles may be small. At any rate, consumers are not purchasing automobiles and they have not yet shown any significant willingness to convert increased purchasing power into increased purchasing of other consumables. The one exception to this generally sluggish consumer performance is in the appliance and home improvement areas.

One area where some of the reduced investment activity has been partially offset is in housing. However, bad weather on the west coast and uncertainty about the impact of tax reform on the profitability of rental property has prevented single-family housing from exploding. Increasing housing activity is expected during the spring and into the early summer months. At that time, household borrowings for new mortgages may largely offset the diminished borrowing by energy distributors. In the meantime, interest rates will continue to trend downward.

Even the government sector is benefiting by the weakness in oil prices. Although the windfall profits taxed will generate very little revenue, falling oil prices substantially reduces the cost of procuring nondurables for the military and for the nonmilitary automobile fleets used by federal and state governments. While the oil patch states undoubtedly have severe fiscal year problems, some other states, especially along the eastern seaboard, may be pleasantly surprised by the budgetary windfalls that may materialize. As a result, government deficits probably will shrink slightly over the next six months.

The magnitude of the current oil generated sluggishness can be overstated. Although auto sales are weakening, auto production remains strong. As a result, inventories in the first quarter will add to GNP estimates. Production probably will weaken slightly in the second quarter and then diminish further in the summer months. Also, the trade deficit appears to have reached its maximum in December, although much of the trade deficit declines since that time appears to be related to falling oil prices in volumes. As the decline in oil import volu-

mes merely indicate a decline in energy material inventories, the impact upon domestic production is relatively modest. Nevertheless, net exports probably will not be detracting from GNP during the first quarter. As a result, economic activity is expected to expand by more than 4% in this quarter while the GNP deflator falls to a relatively low 1.8% rate of gain. In the second quarter, the GNP deflator is expected to show no increase at all. At that time, economic activity is expected to expand more than 4% after adjustment for inflation. While economic activity will be picking up in the second half of 1986, auto production will be trending downward. In addition, construction still is expected to reach a peak in the summer months and begin trending downward by the end of the year, even if falling interest rates will restrain the magnitude of construction weakness at that time.

Unfortunately, the plunge in interest rates that has excited bond and stock investors alike, appears to be related to a one-time shift in desired investment. Once the markets have adjusted to this change in investment desire resulting from oil nonprofitability, interest rates will again be trending upward. Although short-term interest rates almost certainly will decline further in the spring, and could even fall by a full percentage point from current levels, prospects of stable to rising short-term rates late in 1986 or early 1987, should prevent the rally in long-term bonds from going much beyond the current 7.50 yield on the long-term government bond. Indeed, the failure of other long-term instruments to rally as sharply as the government bond market suggests that special factors in that market, including the limitations upon issuing long-term government supply until the Senate raises the borrowing ceiling on such instruments, appears to be at work. Thus, investments appear to remain beneficial in corporate and tax-exempt issues but should not continue to generate significant capital gains opportunities in the long-term government bonds.

Also, the long-term government bonds have rallied so dramatically that stock prices have not been able to fully reflect the new, lower long-term interest rate environment. Equity values probably are 15% behind what would be justified by prevailing long-term government yields. Thus, further increases in stock market values still appear likely even though the market has moved upward by nearly 50% as measured by the Dow Jones index during the last year.

Quarterly Profile of GNP

	1985-4	1986-1	1986-2	1986-3	1986-4	1987-1	1986 Annual
Real:	0.7	4.6	4.6	3.9	3.1	1.1	3.4
Price:	3.3	1.8	-0.0	2.8	3.5	3.9	2.2
Nominal:	4.0	6.6	4.6	6.7	6.6	5.2	5.6

Monthly Statistical Highlights for March 1986

Payroll employment +215,000; index of hours worked +0.2%; household employment +293,000; civilian unemployment rate 7.1%; personal income +0.6%; savings rate 5.2%; personal consumption +0.0%; retail sales -0.9%; auto sales 9.7 million; housing starts +1.9%; housing permits +2.8%; construction expenditures +2.1%; business inventories +0.7%; orders for durable goods +1.1%; orders for nondefense capital goods -2.3%; industrial production +0.4%; CPI -0.3%; PPI -0.0%; consumption deflator -0.2%; leading indicators +0.5%; real GNP +5.4%; M1 +10.1%; M2 +7.8%.

Monthly Statistical Highlights for April 1986

Payroll employment +253,000; index of hours worked +0.2%; household employment +330,000; civilian unemployment rate 7.0%; personal income +0.6%; savings rate 5.4%; personal consumption +0.5%; retail sales +0.3%; auto sales 9.8 million; housing starts +1.0%; housing permits +2.5%; construction expenditures +1.5%; business inventories +0.6%; orders for durable goods +0.8%; orders for nondefense capital goods +0.8%; industrial production +0.3%; CPI -0.1%; PPI -0.3%; consumption deflator UNC; leading indicators +0.5%; real GNP +5.4%; M1 +5.2%; M2 +6.2%.

COMMENTARY

Employment - Initial unemployment claims are currently showing a trendless pattern. Apparently, increases in unemployment associated with the oil industry weakness is being offset by increasing employment in manufacturing that previously had been exposed to import penetration. The 2.8% insured unemployment rate that has prevailed in March is equivalent to a 7.1% civilian unemployment rate. Therefore, a modest decline in the unemployment rate is anticipated despite a projected relatively large increase in household civilian employment. A large projected increase in employment is associated with the return of agricultural workers following the floods in the west.

Personal Income & Outlays - Excluding special factors that substantially restrain personal income in January, personal income in February would have increased 0.4%, about the same as January. However, gains in wages and salaries were more significant, although manufacturing payroll declined in February. In effect, the service economy spurted while the industrial economy stalled. This explains why our estimated GNP gains for February before inflation adjustment are as large as in January. This spurt in service activity should slow in March, but a rebound in manufacturing is anticipated at that time. While farm incomes are not expected to be helped by subsidy in March, as they were in February, personal income is expected to show a 0.6% March gain. Falling interest rates should once again begin restraining personal income gains during the second quarter, as interest income once again falls after only a short period of stabilization early in the year.

Auto sales were even more sluggish than originally anticipated in mid-March as domestic sales fell below 6.7 million units. Assuming import penetration of approximately 2.7 million, this means that auto sales in March will be below 10.0 million. Part of this weakness will be offset by significant further gain in hardware and appliances. In addition, sales at the grocery store and at restaurants are expected to intensify even as gasoline sales should continue to tumble. However, the price declines are so significant for energy products, that nondurables will show a further decrease before price adjustment. Service expenditures were significantly enhanced in February by a return to more normal utility usage following unusually mild temperatures in January and by a surge in financial services related to stock brokerage commissions. Commissions should remain strong in March but utilities should not show any significant spurt. As a result, consumption of services should grow at a much slower rate in March and April than in February.

Some analysts may be surprised by the continuing weakness in personal consumption expenditures and wonder where the consumer is. Clearly, the consumer

is waiting for renewed automobile incentives and will not be encouraged by GM's price strategies. However, prices are falling so significantly that estimates of no change in personal consumption expenditures should be converted into a moderate increase in real consumption after adjustment for inflation. Indeed, after inflation, consumer spending will be growing at a 2.8% annual rate during the first quarter.

Construction - Weather clearly reduced single-family activity during February. While some of the weakness was in the south and is related to the slump in employment activity in Texas, a significant amount of decline in single-family activity reflected unusual weather conditions out west. As weather improves, single-family starts should rise significantly through the spring. Rental units also are expected to continue growing robustly until May or June. Then, a construction pattern similar to that which greeted multiple units in 1985 is expected. Starts should fall sharply though the remainder of the year. Even so, housing starts now appear to be averaging 1.9 million for 1986. Orders for nonresidential construction rebounded significantly in February. While weather is expected to restrain nonresidential activity in that month, these increased orders suggests that activity will continue to grow into the fall. Activity then is expected to slow signficantly late in the year. Orders were also up sharply for public construction projects. Here, however, concerns about tax exempt status and the impact of reduced revenue sharing and federal support for community development should restrain the growth in public construction. All construction is expected to begin trending downward toward the end of 1986, but the reduction in mortgage interest rates certainly increases the likelihood that construction spending will exceed forecasted amounts into 1987.

Business Activity - A surge in automobile inventories at wholesale and retail leads to surprisingly large $4.1 billion increase in business inventories in January. Further sharp increases in business inventories are anticipated in February and March. While declining energy materials inventories will partially offset the impact from these growing business inventories, it now appears that inventories will contribute to GNP in the first quarter, after subtracting from GNP during the fourth quarter. While manufacturing inventories definitely are unusually lean, inventories at the retail and wholesale level appear to be adequate. They certainly are excessive in the automobile sector. Thus, the rebound from inventory rebuilding is expected to be less intense in the second and third quarters than originally projected.

Orders for nondefense capital equipment rebounded sharply above shipments in February as a result of significant orders for aircraft. Declining aircraft orders should be expected in March, but overall orders for nondefense capital goods are expected to remain above shipment into the fourth quarter. This suggests that the sluggishness that will appear in capital spending programs during the first quarter will be replaced by more substantial gains as the year progresses. The surprising dip in defense shipments is slowly dissipating, although defense orders showed a sharp fall in February following a surge in January.

The plunge in industrial production in February occurred despite an 8.7 million automobile assembly rate. This auto assembly rate almost certainly will trend downward to less than eight million by the summer months. However, business equipment activity should being rebounding while activity for defense and space also should begin increasing, following two months of surprising declines. Thus, industrial production is expected to rebound slightly in March and continue to grow through the remainder of the year. Even so, the rate of growth in

industrial activity will barely be sufficient to match the growth capacity. Therefore, capacity utilization is not expected to make any significant changes from current levels in 1986.

Prices - As mentioned in our last Projections, oil prices are dramatically reducing inflationary pressure for consumer nondurables and also should lower prices from previously forecasted value for consumer services. This is a surprising outlook, to the extent that some economists maintain that falling oil prices merely reflect changes in relative prices. Therefore, prices should be expected to rise for commodities other than oil. While some prices are rising, especially lumber products and prices of consumer durables, enough prices are falling to prevent inflationary pressures from intensifying until 1987.

Miscellaneous - Falling oil prices appear to have a greater impact upon the merchandise trade balance than originally expected. Although the deficit fell to $12.49 billion in February as a result of 153 million barrels being imported at an average price of $24.63, prices and volumes are expected to fall even further in March. By April, oil prices should not be a significant factor in causing further declines in the merchandise trade balance. However, the falling dollar should begin to exert downward pressures upon the trade deficit in the second half of 1986.

Leading indicators continues to be buoyed by declining prices, as the impact of falling prices upon the real money stock and indirectly upon equity values more than offsets its adverse effects upon sensitive prices. Moreover, the weakness in sensitive prices in February suggests that deflationary pressures will continue through the spring.

Sharp increases in unemployment and the plunge in industrial production suggests that GNP fell in February. However, the surge in services and the decline in the GNP deflator estimates for that month suggests that such a conclusion is incorrect. Indeed, personal income after adjustment for special factors grew at the same intensity in February as January while prices definitely fell in February after rising in January.

FINANCIAL MARKETS

As mentioned in the earlier commentary, a substantial shift in desired investment that has not been offset by a corresponding shift in desired savings appears to be responsible for this sharp decline in interest rates at the present time. The most intense downward pressures upon interest rates from these changed investment desires should occur in the spring. Therefore, short-term interest rates could fall by another full percentage point, although our projections only show a half percentage point decline. The long-term government bond appears to have overreacted to special conditions in the supply of long-term government instruments and is now yielding a value that can only be justified if a full percentage decline in short-term rates materialize and then is preserved. However, interest rates probably will begin trending slightly upward in the second half of 1986.

Although significant downward movement in long-term government bond yields from current levels is not anticipated, an enormous gap currently exists between the long-term government market and other long-term instruments. Fear that a toughened minimal tax will be exerted on tax-exempts, temporarily caused the

bond buyer to rise above .81 as a ratio of the Corporate AAAs. As most of the Senate does not wish to exert such burdens upon the tax-exempt market, values currently exist in the municipals market. Moreover, an enormous 140 basis point gap between the AAA and long-term government bonds suggest that significant value currently exists in the corporate market. Therefore, even if government interest rates show little further decline, significant gains still are anticipated in corporate markets. In addition, the BAA is expected to rally until its yield falls to approximately 9%. This means that the FHA mortgage rate also will approach 9%. All these interest yields are expected to materialize before the end of spring. After that time, interest rates are expected to be largely trendless, although the tax-exempt market may once again be hit with significant supply toward the end of 1986.

At the present time, the commercial paper rate has again begun to trade above the federal funds rate. This suggests a temporary increase in the demand for money leading to a significant expansion in the monetary base. However, commercial paper is expected to trend down below the federal funds rate in the spring, causing another decline in the discount rate. This will bring the prime rate down to 8.5% within the next month. A further decline to 8% cannot be totally ruled out, but interest rates then will be trending upward late in 1986 and early in 1987.

Equity Markets

Our current estimates show that nominal GNP will be rising about 5.6% in 1986. Because real economic activity is expected to accelerate slightly, the returns to capital should be growing slightly faster than that rate. Probably, returns to capital will be growing about 7%. However, falling interest rates mean that the returns to debt recipients will actually decline. As a result, the returns to equity owners will be growing about 12%. More significantly, the plunge in long-term interest rates indicates that the valuation of equity earnings will increase by more than one-third. This means that equity values could rise by 50% from 1985 levels. At the present time, the Dow Jones appears to remain almost 200 points below what these valuations justify. Of course, the stock market appears to be lagging behind the interest rate developments just as corporate AAA rates appear to be lagging behind long-term government bond yields. The markets are expected to catch up with interest rate conditions before the end of spring. By that time, the Dow Jones could exceed 2000, as multi-national corporations continue to be favored over domestic producers. Stock prices then are expected to show little change through the remainder of 1986 and may begin trending downward in 1987 if recessionary fears begin arising at that time.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate		Hourly Earnings Index	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1985	98559	98559	117.4	117.4	107813	107813	7.1	7.1	166.4	166.4
November	98739	98801	117.5	117.6	107969	107969	7.0	7.0	167.1	167.1
December	99059	99086	118.3	118.1	108206	108206	6.9	6.9	168.4	168.4
January 1986	99274	99507	118.6	119.3	108592	108955	6.8	6.7	169.2	167.5
February	99553	99733	119.0	118.9	108806	108561	6.9	7.3	170.0	168.5
March	99835	99948*	119.4	119.2*	109074	108854*	6.7	7.1*	170.9	169.1*
April	99986	100201	119.5	119.5	109265	109184	6.6	7.0	171.2	169.6
May	100184	100377	119.7	119.7	109532	109403	6.6	7.0	171.4	170.0
June	100380	100587	120.0	119.9	109799	109650	6.5	6.9	171.7	170.4
July	100617	100839	120.3	120.2	110013	109903	6.6	6.9	172.3	170.8
August	100872	101024	120.6	120.4	110184	110117	6.6	6.8	172.9	171.2
September	101127	101258	120.9	120.7	110329	110402	6.7	6.7	173.5	171.7
October	101256	101527	120.8	121.0	110483	110700	6.6	6.6	174.0	172.2
November	101403	101721	121.0	121.2	110729	110899	6.5	6.6	174.3	172.8
December	101382	101897	120.9	121.4	110843	1111G*	6.6	6.6	174.7	173.3
January 1987	101559	102015	121.2	121.5	111019	111251	6.5	6.7	175.6	173.9
February	101791	102200	121.5	121.7	111238	111476	6.5	6.7	176.5	174.5
March	102030	102310	121.8	121.8	111442	11606	6.5	6.7	177.3	175.1

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1985	3.331	3.331	1.991	1.992	127.8	120.0	2.825	2.826	2.698	2.706
November	3.347	3.348	2.003	2.004	120.3	120.4	2.838	2.840	2.717	2.719
December	3.394	3.384	2.025	2.022	106.1	105.3	2.879	2.872	2.773	2.767
January 1986	3.396	3.387	2.035	2.029	107.9	126.3	2.888	2.883	2.780	2.757
February	2.418	3.406	2.048	2.039	118.8	135.6	2.907	2.902	2.788	2.766
March	3.440	3.427*	2.062	2.052*	149.8	153.2*	2.926	2.920*	2.776	2.767*
April	3.455	3.448	2.071	2.065	144.3	158.1	2.937	2.938	2.793	2.780
May	3.471	3.463	2.079	2.073	134.7	153.4	2.949	2.949	2.815	2.796
June	3.487	3.480	2.088	2.083	122.7	147.1	2.962	2.962	2.839	2.815
July	3.505	3.499	2.100	2.094	118.5	147.1	2.973	2.977	2.855	2.830
August	3.522	3.517	2.112	2.104	123.1	146.0	2.985	2.991	2.862	2.845
September	3.539	3.536	2.125	2.116	117.8	114.0	2.997	3.006	2.879	2.862
October	3.558	3.557	2.132	2.129	120.7	146.2	3.011	3.023	2.890	2.877
November	3.578	3.576	2.139	2.141	118.8	144.4	3.027	3.037	2.908	2.893
December	3.599	3.595	2.146	2.151	114.0	146.8	3.044	3.051	2.930	2.904
January 1987	3.607	3.605	2.160	2.160	145.4	158.3	3.089	3.080	2.944	2.922
February	3.631	3.626	2.174	2.172	150.2	163.5	3.112	3.099	2.961	2.936
March	3.656	3.645	2.199	2.182	154.8	160.1	3.134	3.115	2.979	2.955

Fore. = February Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Fore	C E	Fore	C E	Fore	C E	Fore	C E	Fore	C E
October 1985	2603.1	2611.1	348.2	355.7	926.0	926.0	1328.9	1329.3	2301.6	2319.9
November	2621.7	2623.6	353.9	357.2	926.5	925.3	1341.3	1341.1	2303.8	2319.2
December	2675.1	2669.8	375.7	373.0	935.7	933.5	1363.7	1363.3	2342.5	2352.1
January 1986	2681.6	2658.9	380.5	368.8	939.6	931.4	1361.5	1358.7	2352.3	2336.3
February	2687.7	2667.3	378.2	367.9	941.3	924.4	1368.2	1375.0	2359.7	2349.2*
March	2673.7	2667.4*	357.9	360.7*	940.0	922.0*	1375.8	1384.7*	2345.4	2354.1
April	2689.5	2679.6	365.6	361.3	941.2	924.9	1382.7	1393.4	2351.0	2366.0
May	2709.8	2694.5	368.1	363.7	947.9	929.2	1393.8	1401.6	2358.4	2379.0
June	2733.0	2712.9	370.7	366.1	957.3	936.0	1405.0	1410.8	2370.3	2390.0
July	2746.7	2727.0	373.5	368.3	959.6	938.8	1413.6	1419.9	2376.0	2395.4
August	2752.6	2741.2	377.2	370.2	955.3	942.2	1420.1	1428.8	2375.0	2400.7
September	2768.7	2757.3	380.9	374.4	961.5	945.6	1426.3	1437.3	2382.7	2408.7
October	2778.3	2771.1	376.2	374.9	966.3	949.5	1435.8	1446.7	2380.7	2413.0
November	2794.5	2785.9	375.8	376.3	971.4	953.8	1447.3	1455.8	2386.4	2417.7
December	2815.0	2796.5	378.7	375.0	976.9	957.3	1459.4	1464.2	2395.7	2419.8
January 1987	2827.6	2813.1	380.6	377.6	980.8	961.7	1466.2	1473.8	2396.3	2425.2
February	2843.8	2826.0	382.8	378.8	984.0	965.9	1477.0	1481.3	2399.8	2428.0
March	2860.2	2844.5	385.1	381.6	987.3	971.8	1487.8	1491.1	2405.6	2433.9

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore	C E	Fore	C E	Fore	C E	Fore	C E	Fore	C E
October 1985	114.86	114.79	17.37	17.29	9.6	9.6	72.94	72.43	24.55	25.07
November	115.62	115.43	17.39	17.34	9.8	9.8	73.40	72.80	24.83	25.29
December	117.86	116.86	17.79	17.72	11.5	11.5	73.83	72.98	26.24	26.16
January 1986	119.05	116.98	18.02	17.91	11.5	11.5	74.20	72.70	26.83	26.37
February	118.51	116.81	18.22	17.17	11.0	10.6	74.33	72.55	25.96	26.09
March	116.62	115.75*	17.92	18.26*	9.3	9.7*	74.23	72.36*	24.47	25.13*
April	117.22	116.06	18.12	18.39	9.4	9.8	74.32	72.59	24.78	25.08
May	118.04	116.68	18.16	18.51	9.6	9.8	74.85	72.93	25.03	25.24
June	119.09	117.50	18.09	18.65	9.9	10.0	75.59	73.46	25.41	25.39
July	119.60	117.99	18.26	18.73	10.0	10.0	75.77	73.68	25.57	25.58
August	119.60	118.49	18.34	18.80	10.3	10.1	75.44	73.95	25.82	25.74
September	120.41	119.25	18.56	18.91	10.3	10.3	75.92	74.21	25.93	26.13
October	120.44	119.62	18.72	19.03	9.7	10.2	76.30	74.52	25.42	26.07
November	120.81	120.13	18.79	19.14	9.6	10.2	76.71	74.86	25.31	26.13
December	121.58	120.24	18.49	19.06	9.9	10.1	77.14	75.13	25.95	26.05
January 1987	122.11	120.91	18.52	19.19	10.0	10.2	77.45	75.48	26.14	26.24
February	122.62	121.38	18.61	19.27	10.1	10.1	77.70	75.81	26.31	26.30
March	123.15	122.18	18.64	19.37	10.2	10.2	77.96	76.27	26.50	26.54

Fore = February Forecast
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CONSTRUCTION

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1985	1.772	1.784	1.120	1.118	1.688	1.688	346.3	346.1	204.8	204.7
November	1.566	1.654	0.961	1.006	1.661	1.661	348.1	345.1	206.2	204.3
December	1.840	1.804	1.113	1.087	1.844	1.873	349.4	354.0	206.9	209.6
January 1986	1.869	2.054	1.182	1.341	1.792	1.899	353.8	357.3	209.0	211.0
February	1.854	1.985	1.106	1.208	1.726	1.776	356.2	357.6*	210.1	210.6*
March	1.838	2.023*	1.111	1.248*	1.695	1.827*	359.1	365.2	211.7	214.3
April	1.808	2.044	1.107	1.273	1.652	1.873	360.0	370.7	211.8	216.9
May	1.801	2.041	1.103	1.289	1.629	1.906	360.2	371.6	211.1	216.9
June	1.796	1.990	1.099	1.254	1.634	1.883	361.4	374.2	211.2	217.9
July	1.743	1.954	1.076	1.241	1.596	1.806	363.9	375.5	212.1	218.2
August	1.718	1.914	1.082	1.217	1.543	1.725	366.2	375.4	212.9	217.6
September	1.701	1.871	1.085	1.203	1.542	1.738	368.4	375.0	213.7	216.9
October	1.673	1.832	1.093	1.168	1.492	1.694	368.4	374.9	212.9	216.2
November	1.651	1.803	1.109	1.173	1.491	1.673	368.5	374.4	212.0	215.2
December	1.668	1.763	1.122	1.159	1.490	1.621	368.8	374.9	211.3	214.7
January 1987	1.681	1.760	1.139	1.172	1.517	1.642	369.9	373.7	211.4	213.2
February	1.689	1.735	1.146	1.153	1.543	1.607	370.2	373.9	210.9	212.6
March	1.697	1.716	1.152	1.147	1.554	1.593	370.7	374.0	210.7	211.9

	Non Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1985	132.1	132.2	63.6	62.8	150.6	151.1
November	133.4	137.8	64.5	62.5	150.3	149.7
December	134.3	138.9	65.1	64.5	150.0	150.6
January 1986	134.6	137.8	66.3	66.7	152.9	152.8
February	133.9	136.9*	67.4	66.2*	154.9	154.5*
March	133.9	137.4	68.2	66.5	157.0	161.3
April	134.7	138.0	68.3	66.9	157.0	165.8
May	135.6	138.5	68.0	67.2	156.6	165.9
June	136.4	138.9	67.7	67.5	157.3	167.8
July	136.3	139.4	68.7	67.8	158.9	168.3
August	136.8	140.0	69.4	68.1	160.0	167.3
September	137.2	140.4	70.0	68.5	161.2	166.1
October	138.1	140.8	69.3	68.9	160.8	165.2
November	139.0	141.0	69.0	69.2	160.5	164.2
December	139.9	141.1	68.4	69.3	160.5	164.5
January 1987	140.0	140.7	69.0	69.6	160.9	163.4
February	140.0	140.5	69.7	69.7	160.5	163.7
March	139.6	140.0	70.3	70.0	160.8	164.0

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BUSINESS ACTIVITY

	Manufacturers Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Fore	C E	Fore	C E	Fore	C E	Fore	C E
October 1985	282 4	282 4	104 50	104 50	27 09	27 09	27 72	27 72
November	281 8	282 0	103 78	103 80	25 79	25 79	27 77	27 77
December	282 1	281 9	108 16	107 53	31 36	30 57	29 53	28 63
January 1986	282 9	280 7	106 19	108 46	28 42	24 55	29 03	25 60
February	283 7	280 0*	106 93	107 86	28 65	28 86	28 96	26 86
March	284 9	280 5	107 53	109 05*	29 13	28 21*	29 11	27 36*
April	286 2	281 6	107 27	109 92	29 10	28 43	29 15	27 73
May	287 3	283 0	106 78	110 86	28 66	28 76	29 07	28 14
June	288 3	284 2	107 08	111 24	28 93	28 93	29 08	28 37
July	289 5	285 1	107 46	111 21	29 17	29 16	29 12	28 68
August	290 8	286 3	108 13	112 16	29 29	29 34	29 15	28 93
September	292 0	287 5	107 92	111 28	29 02	29 28	29 14	29 14
October	293 5	288 9	107 43	110 91	28 86	29 35	29 12	29 23
November	295 4	290 3	107 16	110 48	28 72	29 22	29 18	29 36
December	297 4	291 6	106 92	109 62	28 78	29 07	29 23	29 42
January 1987	299 2	293 0	106 85	108 84	28 53	29 16	29 09	29 27
February	300 8	294 4	107 11	107 96	28 66	28 89	28 92	29 15
March	302 4	295 9	107 02	107 91	28 91	28 85	29 06	29 08

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Fore	C E	Fore	C E	Fore	C E	Fore	C E
October 1985	582 2	582 2	7 67	7 67	124 4	124 4	79 8	79 8
November	583 4	582 8	7 86	7 86	125 1	125 4	80 1	80 3
December	584 6	584 0	7 87	7 94	126 0	126 3	80 5	80 7
January 1986	585 1	588 1	7 95	7 03	126 8	126 5	80 8	80 6
February	587 6	591 4*	8 10	7 38	127 0	125 7	80 8	80 0
March	589 7	595 3	8 23	7 54*	127 2	126 2*	80 7	80 2*
April	591 4	598 9	8 30	7 63	127 5	126 6	80 7	80 3
May	594 5	601 7	8 33	7 79	127 8	127 0	80 7	80 4
June	597 4	604 1	8 37	7 85	128 1	127 3	80 7	80 5
July	599 1	606 2	8 46	7 91	128 2	127 6	80 6	80 5
August	601 5	609 5	8 57	8 09	128 3	128 0	80 4	80 6
September	603 8	612 4	8 69	8 12	128 5	128 3	80 3	80 6
October	606 4	615 1	8 65	8 20	128 7	128 6	80 2	80 6
November	610 7	620 2	8 60	8 27	128 8	128 9	80 0	80 6
December	615 5	623 3	8 61	8 33	128 7	129 1	79 7	80 5
January 1987	619 4	625 9	8 72	8 45	128 9	129 2	79 6	80 3
February	622 8	628 8	8 81	8 51	128 8	129 4	79 3	80 3
March	626 0	631 6	8 89	8 57	128 9	129 6	79 2	80 2

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PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Fore	C.E.	Fore	C.E.	Fore	C.E.	Fore	C.E.
October 1985	324.6	324.6	294.4	294.3	324.4	324.2	112.7	112.6
November	326.2	326.2	296.7	296.7	325.0	325.0	113.0	113.0
December	327.8	327.8	297.9	297.9	325.2	325.2	113.2	113.4
January 1986	328.7	328.7	297.3	296.2	323.9	324.0	113.6	113.7
February	328.6	327.4	296.9	291.8	322.5	319.4	113.9	113.5
March	329.1	326.4*	296.6	291.7*	321.2	316.9*	114.2	113.4
April	330.3	326.1	296.9	290.8	321.8	316.0	114.4	113.4
May	331.5	326.5	297.1	291.1	322.2	316.2	114.7	113.5
June	332.7	327.3	297.8	291.3	322.5	316.5	115.0	113.7
July	333.4	328.5	298.4	291.9	322.9	317.1	115.3	114.0
August	334.1	329.8	298.9	292.3	323.2	317.8	115.6	114.3
September	334.8	330.9	299.4	292.1	321.2	315.6	115.9	114.6
October	336.1	332.1	299.9	292.6	323.9	318.8	116.3	114.9
November	337.4	333.5	300.5	293.8	324.8	319.5	116.6	115.3
December	338.7	334.8	301.2	294.7	325.7	320.4	117.0	115.6
January 1987	340.2	335.9	302.0	295.6	326.5	321.2	117.4	116.0
February	341.7	337.0	302.9	296.5	327.0	322.1	117.9	116.4
March	343.3	338.4	303.8	297.6	327.6	332.9	118.3	116.9

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Fore	C.E.	Fore	C.E.	Fore	C.E.	Fore	C.E.	Fore	C.E.
October 1985	113.1	112.5	104.7	104.3	108.8	108.3	118.7	118.3	169.0	169.0
November	113.6	113.1	105.2	104.4	109.1	109.1	119.1	118.8	168.8	168.9
December	114.2	113.5	105.6	104.5	109.9	109.8	119.6	119.1	168.9	168.9
January 1986	114.0	113.8	105.0	105.0	109.8	109.8	119.9	119.5	169.3	169.3
February	113.9	113.5*	104.7	105.0*	109.5	108.5*	120.2	119.9*	169.5	169.8*
March	114.0	113.3	104.5	105.2	109.5	107.3	120.5	120.2	169.6	170.4
April	114.4	113.3	104.7	105.4	109.7	106.7	120.9	120.5	170.0	170.9
May	114.9	113.3	104.9	105.5	109.9	106.2	121.6	120.9	170.6	171.3
June	115.3	113.5	105.1	105.7	110.1	106.3	122.2	121.3	171.1	171.7
July	115.6	113.8	105.3	105.8	110.3	106.5	122.8	121.8	171.6	172.1
August	115.9	114.2	105.5	106.0	110.4	106.8	123.2	122.2	172.0	172.5
September	116.2	114.5	105.7	105.9	110.5	107.0	123.6	122.7	172.4	172.9
October	116.7	114.8	106.0	106.2	110.9	107.2	124.1	123.2	173.0	173.4
November	117.1	115.2	106.2	106.4	111.5	107.4	124.8	123.8	173.8	174.0
December	117.5	115.6	106.4	106.5	112.0	107.6	125.5	124.3	174.5	174.6
January 1987	118.0	116.0	106.5	106.7	112.3	107.9	126.0	124.9	175.0	175.3
February	118.5	116.4	106.7	107.0	112.5	108.2	126.5	125.4	175.5	175.9
March	118.9	116.9	106.9	107.3	112.7	108.6	127.1	126.0	175.9	176.5

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MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1972 $)		IVA (annual rate)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1985	-11.47	-14.01	171.3	171.6	4030	4028	3576	3577	-6.2	-6.2
November	-13.68	-12.81	171.5	172.0	4058	4050	3591	3584	-9.7	-10.2
December	-16.57	-14.91	173.6	174.2	4097	4095	3619	3611	-14.6	-13.6
January 1986	-14.93	-14.42	173.0	174.2	4133	4113	3638	3617	-0.6	-0.3
February	-14.21	-12.49	172.6	175.4*	4154	4121	3647	3631	4.3	9.6
March	-11.59	-11.63*	173.0	176.3	4176	4136	3657	3647	14.0	16.1
April	-13.29	-11.96	173.4	177.2	4198	4154	3670	3663	12.1	16.6
May	-13.85	-12.24	173.3	177.5	4215	4165	3675	3670	6.0	11.5
June	-13.26	-11.82	173.8	177.8	4233	4191	3681	3686	2.3	7.8
July	-13.46	-11.76	173.5	176.5	4254	4209	3690	3692	-1.0	7.1
August	-13.35	-11.53	173.2	176.4	4274	4244	3697	3713	-1.8	5.3
September	-13.23	-11.27	172.8	176.9	4295	4262	3706	3719	-1.9	4.1
October	-13.69	-11.43	172.9	176.5	4319	4287	3714	3731	-4.7	2.6
November	-13.49	-11.56	172.5	176.2	4346	4308	3727	3736	-9.3	0.9
December	-13.28	-11.21	172.8	176.7	4375	4325	3739	3741	-14.2	-1.1
January 1987	-13.07	-10.97	172.5	175.8	4396	4343	3744	3744	-12.6	-1.9
February	-12.98	-10.76	171.6	175.3	4414	4365	3744	3750	-10.7	-3.7
March	-12.88	-11.53	171.4	175.6	4433	4378	3747	3745	-8.9	-4.9

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FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1985	231.3	232.0	611.1	614.1	2532.8	2538.3	7.99	7.99	7.33	7.33
November	232.7	233.0	617.9	620.0	2546.8	2550.7	8.05	8.05	7.30	7.30
December	235.0	234.9	624.5	626.5	2563.1	2565.5	8.27	8.27	7.09	7.09
January 1986	236.5	235.6	627.3	627.1	2582.7	2568.4	8.06	8.14	7.10	7.16
February	237.0	238.1	629.2	630.9	2603.5	2576.2	7.96	7.86	7.08	7.11
March	237.6	239.2*	631.^	636.0*	2624.1	2592.3*	7.85	7.53*	7.06	6.73*
April	239.2	240.1	633.7	638.7	2636.7	2605.3	7.53	7.09	6.92	6.46
May	240.9	241.0	636.2	640.6	2648.5	2618.3	7.42	6.92	6.89	6.35
June	242.5	241.9	638.6	642.7	3660.5	2631.4	7.31	6.73	6.85	6.27
July	243.8	242.7	641.1	644.4	2681.4	2644.6	7.25	6.75	6.82	6.29
August	245.1	244.0	645.8	648.3	2698.7	2660.6	7.31	6.87	6.86	6.38
September	246.4	245.3	650.5	652.0	2716.0	2675.8	7.37	7.02	6.88	6.44
October	248.0	246.6	653.4	655.7	2734.3	2693.9	7.59	6.95	7.13	6.45
November	249.1	248.0	656.9	659.4	2754.9	2709.1	7.63	6.98	7.21	6.49
December	250.2	249.3	660.4	662.9	2775.4	2725.4	7.68	7.05	7.28	6.61
January 1987	251.8	250.5	663.9	666.3	2791.3	2744.5	7.85	7.11	7.40	6.67
February	253.1	251.6	667.4	669.3	2809.1	2759.9	7.93	7.06	7.46	6.65
March	254.4	253.0	671.1	672.7	2826.9	2776.5	7.82	7.10	7.40	6.69

	Aaa (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1985	11.02	11.02	9.08	9.08	7.80	7.80	7.88	7.88	9.50	9.50
November	10.55	10.55	8.54	8.54	7.77	7.77	7.81	7.81	9.50	9.50
December	10.16	10.16	8.43	8.43	7.75	7.75	7.80	7.80	9.50	9.50
January 1986	10.05	10.05	8.27	8.08	7.72	7.71	7.84	7.82	9.50	9.50
February	10.12	9.67	8.25	7.44	7.63	7.63	7.75	7.69	9.50	9.50
March	10.08	9.08*	8.09	7.16*	7.56	7.42*	7.71	7.50*	9.50	9.32*
April	9.84	8.63	7.63	6.90	7.52	7.12	7.67	7.20	9.50	9.00
May	9.73	8.44	7.52	6.76	7.28	6.90	7.48	6.97	9.19	8.73
June	9.63	8.46	7.41	6.73	7.16	6.76	7.35	6.85	9.00	8.50
July	9.44	8.51	7.26	6.77	7.11	6.85	7.29	6.93	9.00	8.50
August	9.49	8.53	7.28	6.81	7.26	6.94	7.42	7.05	9.00	8.50
September	9.53	8.50	7.35	6.80	7.42	7.05	7.63	7.16	9.00	8.50
October	9.55	8.59	7.36	6.87	7.65	7.08	7.78	7.20	9.00	8.50
November	9.58	8.64	7.40	6.95	7.72	7.11	7.95	7.21	9.00	8.50
December	9.61	8.61	7.44	7.13	7.79	7.23	8.14	7.32	9.00	8.76
January 1987	9.88	8.65	7.60	7.08	7.93	7.29	8.23	7.38	9.08	9.00
February	9.95	8.73	7.74	6.98	7.99	7.21	8.30	7.35	9.50	9.00
March	9.96	8.75	7.77	7.01	7.95	7.18	8.27	7.31	9.50	9.00

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